

Examiner SPOTLIGHT

Don Stephens

DON STEPHENS had enjoyed his law school course work in trusts and estates. So, after learning that the OCC had reorganized and expanded its National Bank Trust Department in the early 1960s, he applied for an examiner's job and was hired.

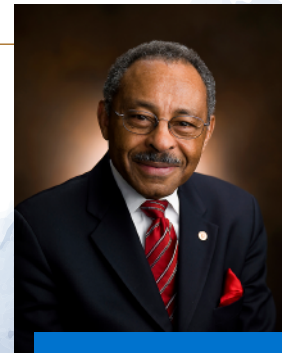
Stephens knew that the examiner's life required mobility—it was one of the things that attracted him to that life—but he had no reason to think that his first move would occur immediately upon being hired. Signing on in Dallas, Stephens was transferred to Cleveland. That was only the first of many relocations to follow.

He did not spend much time in any one place, however. Being an OCC examiner meant living out of a suitcase and car, going straight from bank to bank.

During Stephens' first years of service, he never saw a duty station, and when he finally did see one, he realized that he hadn't missed much. "Some were no more than large closets with storage for supplies," he recalled. "No equipment, no phones." By that time, he had already learned the drill: Exam reports were pounded out on portable Royal typewriters from the backseat of the car.

Stephens retired after 43 years of service.

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Roland W. Burris

In 1963, 100 years after the formation of the OCC, a young lawyer was hired to be a bank examiner in the Chicago Duty Station. What made that particular hiring a special event was that it was the first time the OCC hired an African American bank examiner. His name was **ROLAND W. BURRIS**, and he worked at the OCC for one year.

Burris continued his public service career as the first African American elected to an Illinois statewide office in 1978. He served as the state's Comptroller for three terms and was elected Illinois Attorney General in 1990. He was later appointed to the U.S. Senate, representing Illinois.

1960–1979

New banking products such as the negotiable certificate of deposit in the 1960s eased deposit shortages and added to supervision responsibilities. As banking products became more complex, compliance responsibilities for examiners increased.

The Currency and Foreign Transactions Reporting Act of 1970—commonly referred to as the Bank Secrecy Act—required U.S. financial institutions to help the federal government detect and prevent money laundering. Examiners now had to make sure banks kept appropriate records and filed certain reports to comply with the law.

The civil rights movement had ripple effects on banking, and by extension bank supervision. Bank examiners now were required to ensure that banks provided fair access to financial services, treated customers fairly, and complied with new laws.

Congress passed the Equal Credit Opportunity Act of 1974 to prevent banks and other creditors from discriminating against applicants. Then in 1975 the Home Mortgage Disclosure Act was enacted to shed light on lending patterns that could be discriminatory.

The Community Reinvestment Act of 1977 (CRA) required federal financial regulators to assess each financial institution's record of meeting the credit needs of the entire community it served in a manner consistent with safe and sound banking operations.

Within the agency, hiring practices were evolving. By the mid-1960s, new examiners had to have college degrees

for the first time, and women began to take on new roles. The first all-female exam team came together in 1973; 31 women spent two weeks going over the records of United National Bank of Plainfield, N.J. "This is not a stunt," the team's manager said. "We are using a group of women for a surprise audit to show they are efficient and quite able to handle the job themselves."

"We believe that, taken together, the profitability and growth potential in U.S. retail banking markets, the obligations imposed by the Community Reinvestment Act and the Equal Credit Opportunity Act, and, most importantly, the natural play of competitive forces in the marketplace actively protect and promote the needs of consumers and of local businesses."

JOHN G. HEIMANN
Comptroller of the Currency, August 1, 1979



President Jimmy Carter signs the Community Reinvestment Act on October 12, 1977.
(Jimmy Carter Library, National Archives and Records Administration)

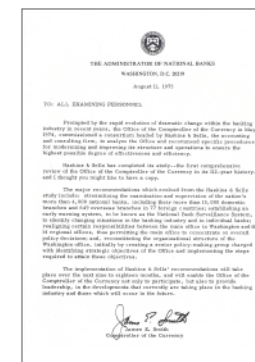


All-female examining team
Left to right: Mary Elena Brothman, Mercedes Torres, Laura L. Marshall, Karen J. Wilson, Eva Hagan, and Barbara McGill
(October 1973)

Prompted by the rapid evolution within the banking industry, Comptroller James Smith in 1974 commissioned a seminal study—the first-ever comprehensive review of agency practices—that directly led to major strategic and operational changes for examiner responsibilities, including a shift away from verifying assets to more sophisticated systems and risk analysis. The study also triggered the development of the OCC's first remote monitoring system, created risk-focused exam scheduling, and established multinational, regional, and international banking programs later in the decade.

As part of these new procedures, surprise exams stopped in 1977. No longer would examiners show up unannounced with no notice to unprepared bankers.

The International Banking Act of 1978 opened the doors for foreign banks to conduct operations in the United States through a federal branch or agency.



Letter from Comptroller James E. Smith to examiners on the Haskins & Sells study conducted in 1974

In 1979, the OCC, through the Federal Financial Institutions Examination Council, adopted the Uniform Financial Institutions Rating System. This system took its name from the acronym for its component parts, CAMEL, which identified five distinct categories of risk.

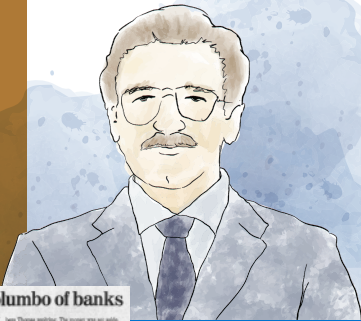
Bank supervision requires significant data and analysis. By this time, the OCC had entered the computing age with room-size hardware that could cull through the 12 million numbers comprising all the call reports national banks submitted.

Should an employee need a copy of the condition of any bank, the division's employees could produce a copy on microfilm in the time it took to get a cup of coffee.



A UNIVAC 1108 system, circa 1965
(Photo courtesy of the Hagley Museum and Library)

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Joe Hooks

He's the Lt. Columbo of banks

By Peter J. Daniels
Globe Staff

WASHINGTON — When Chicago's biggest bank got in trouble in the mid-1980s, Washington regulators sent in their top man to determine the problem. But they did not know the man they sent was Joe Hooks.

Working a sharp suit and looking in a flat Chicago way, Hooks did not resemble the Chief National Bank Examiner of Chicago that his bank had made a lot of that name and had before not really come around. "He's going to take \$100 million," someone once told him. "He's going to take \$100 million," someone once told him. "He's going to take \$100 million," someone once told him.

An article highlighting Joe Hooks from The Boston Globe on February 21, 1990.

Oklahoma native **JOE HOOKS** pulled the cord on some of the biggest banking failures during the 1980s. He uncovered scores of unsupported loans issued by banks eager to do business but less eager to confirm a borrower's ability to pay. In the case of one \$20 million loan, the only supporting document was a single sheet of paper stating that the borrower played football for the University of Oklahoma.

Hooks earned the ire of a prominent banker, Hugh McColl, after finding poor underwriting in his bank's real estate portfolio and raising questions about ambitious expansion plans.

McColl was infuriated. In his autobiography, he recounted a meeting with President George H.W. Bush and his staff. "The problem you all have is that you think you are running this country," McColl told the group. "There is only one man running this country. ... He's the Chief National Bank Examiner on real estate," McColl said of Hooks. "He's the man who decides who gets credit in this country. He's the grim reaper. He marches into banks' real estate divisions and shuts them down."

Hooks retired in 1997. And McColl? His bank, NCNB, became Bank of America.

Examiner SPOTLIGHT



Samuel P. Golden

In April 1982, **SAMUEL P. GOLDEN** was sent to examine Penn Square, a small bank in Oklahoma City. The bank had sold to other banks billions of dollars in oil and gas credits, which were vastly overvalued. Within four months, Penn Square failed, starting a chain of bank failures that went into the next decade.

Examiners often got the blame for failures and were not popular with bankers or borrowers. "You were closing banks every Thursday," Golden recalled. "We had a borrower at one of the little banks north of Houston that actually said, 'I'm going to bring my rifle, and we're going to line [the examiners] up, and we're going to shoot them one by one, and I'm going to find the Black one, and I'm going to kill him first.'"

Golden's experience dealing with banks and their customers during those tense times made him a natural to become the OCC's first Ombudsman in 1993, where he oversaw appeals for banks and worked on consumer complaints.

He retired in 2008 after 34 years with the OCC.

1980-1989

During the 1980s, the OCC placed more emphasis on off-site monitoring through advances in computer technology, introducing a portable computer called the Supervision Monitoring System to store and share data, and less emphasis on on-site examinations. Although these internal changes implied fewer examiners would be needed, both the Carter and Reagan administrations restricted hiring to reduce the size of the federal government, freezing examiner staffing levels in 1981 and forcing the issue.



The Corona microcomputer model PPC-400 was the first portable computer examiners used in the field. It had a 10MB hard drive, 512MB of memory, and weighed 28 pounds.

While policy and staffing shifts occurred, the number of bank mergers and acquisitions and new bank charters increased dramatically. Legislative

changes allowed interest-bearing checking accounts and deregulated interest ceilings on deposit accounts. All of this further enabled bank competition.

The Economic Recovery Tax Act of 1981 gave real estate investors extraordinary, though temporary, incentives to invest by accelerating depreciation, and the Garn-St. Germain Depository Institutions Act of 1982 allowed thrifts to make commercial real estate, construction, and commercial loans. These new laws helped fuel an explosion of speculative real estate lending that lasted until 1986, when the Tax Reform Act took away investor-friendly incentives.

Commercial real estate investment then ground to a halt—resulting in the savings

and loan crisis. By 1988, about 250 thrifts with \$81 billion in assets were technically insolvent.

In addition, developing countries defaulted on obligations, and a decline in the energy sector caused turbulence in bank portfolios. Banks and thrifts failed in numbers not seen since the Great Depression.

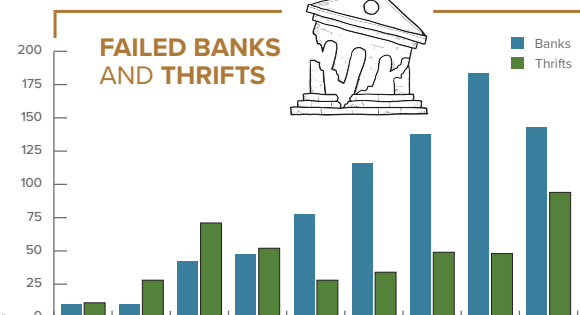
Through attrition, the OCC examiner staff had declined by 20 percent at the same time that the number of troubled banks increased. With too few examiners, more off-site examination activity, and insufficient tools to get in front of the speculative commercial real estate lending, the high number of bank failures in the late 1980s raised questions about

the effectiveness of supervision systems to identify problem banks and examiners' ability to then influence bank behavior.

Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which addressed many of these issues. It also created the Office of Thrift Supervision (OTS) from the Federal Home Loan Bank Board and the Resolution Trust Corporation.

By the end of the decade, it was clear that off-site monitoring was not a substitute for, but potentially a useful complement to, on-site examinations. Additionally, the OCC's supervision system evolved into the Uniform Bank Surveillance System, whose best-known product is the Uniform Bank Performance Report. The agency also concentrated examination resources on banks that posed the greatest threat to stability across the system, physically embedding examiners within the largest 11 banks.

Around this time, the OCC introduced quarterly bank reviews that monitored changes in a bank's call report. These reviews added regular, recurring touch



Looking back on the banking crises of the late 1980s to early 1990s:

“During that whole time ... we had a terrible reputation. We were called the regulators from hell. There were many that pointed fingers to us, particularly the OCC, that we were causing some of the problems.”

JERI GILLAND, Deputy Controller for the OCC's Southern District, retired in 2007

points between examiners and bankers that dramatically changed the tone of how banks and examiners interacted. Bank examiners were not necessarily viewed as an untrustworthy adversary any longer; rather, examiners became seen as an asset to ensuring a bank's safety and soundness.

As the agency rebuilt its examiner workforce, in numbers and experience, FIRREA helped the OCC recruit new employees by removing the civil service limits on OCC pay and benefits. The agency now could offer salaries comparable to other financial regulators as well as the banking industry.

Then, newly recruited assistant national bank examiners, upon taking the Uniform Commission Examination, had to find and apply for a new job and move before becoming commissioned.

Looking back on the animosity from some bankers during this time:

“You'd be in a loan discussion at a little bank ... and they'd pull a pistol out of a desk and start cleaning it or lay it on the table.”